REMARKS

These Remarks respond to the Office Action dated August 9, 2004. A request for a three month extension of time is enclosed. As a result, this Response is timely. Claims 1-20 are pending. Claims 1, 3, 7 and 16 have been amended to more particularly define Applicants' invention. Claims 1, 7 and 16 are independent. Applicants thank the Examiner for the interview on December 16, 2004. Applicants respectfully request that the draft Interview Summary sent to the Examiner on December 21, 2004 be accepted and placed in the file.

Applicants respectfully submit that the claims of the present application each recite a novel use of retirement compensation agreement (RCA) loans, which are loans made in connection with the Canadian taxation authority's plan for an employer to make contributions to fund retirement benefits for an employee. As explained below, Applicants' unique use of substantially illiquid RCA loans to back debt securities simply is not taught or suggested by the cited prior art, which relates to the use of highly liquid real property in the area of real estate-based financing.

The § 101 Rejections

Claims 1-6 stand rejected under 35 U.S.C. § 101 as directed to non-statutory subject matter. For at least the reasons set forth below, Applicants respectfully assert that this rejection has been obviated and should be withdrawn.

Applicants have amended independent claim 1 to recite that at least one of the aggregating, creating and selling uses at least one of a data processor and an electric or computer communications link. Claim 1, as amended, thus recites a tangible method of securitizing RCA

loans using technological advances, which is a new and useful process within the technological arts for marketing asset-based financial instruments.

Claim 1, as amended, unquestionably has a "practical application" and a "useful, concrete and tangible result" within the meaning of *State Street Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368, 1374 (Fed. Cir. 1998) (citing *In re Alappat*, 33 F.3d 1526, 1544 (Fed. Cir. 1994) (en banc)). It is also, an invention within the technological arts. As a result, claim 1 as amended qualifies as statutory subject matter.

In view of the above, Applicants respectfully submit that the rejection under § 101 is improper and must be withdrawn.

The Pending Claims Are Patentable Over the Prior Art

Claims 1-2, 6-14 and 16-19 stand rejected as unpatentable under § 103 over Modern Real Estate Practice by Galaty et al ("Galaty") in view of "RCAs Can Boost Entrepreneurs' Borrowing Power" by Webel ("Webel"). Claims 3-5, 15 and 20 stand rejected as unpatentable under § 103 over *Galaty* and *Kennedy* and further in view of "Loan Options: Conforming or Jumbo?" by Hymer ("Hymer"). For at least the reasons set forth below, Applicants respectfully assert that the claimed method and systems are neither taught nor suggested by *Galaty*, *Webel* or *Hymer*, either individually or in any combination.

Each of the pending claims recites a system or method in which a plurality of RCA loans are used to secure debt instruments sold in a public or private offering. Additionally, the claimed RCA loans are backed by a refundable tax deposit account and a life insurance policy. *See*, *e.g.*, *Specification* at 19:17 - 27:13. Moreover, the amended claims recite the feature of maintaining payments of principal and interest on the debt securities in the event of default of a RCA loan. *See*, *e.g.*, *Specification* at 23:8 - 25:14.

Thus, according to exemplary embodiments of the present invention, several RCA loans, each secured by a cash value life insurance policy and a refundable tax deposit, are used to back debt securities which can be marketed and sold in the financial marketplace.

Applicants respectfully assert that the securitization of RCA loans and the related marketing of asset-based debt securities backed by RCA loans, with the claimed maintenance of payment on the debt securities in the event of default of an underlying RCA loan, is in no way taught or suggested by the cited prior art. Indeed, Applicants are not aware of any entity, other than Applicants, that have even attempted to use RCA loans to back debt securities as claimed in the present application. This is because while individual RCA loans were conventionally known, as described in *Webel* and in the discussion of the prior art in the specification (*see, e.g.*, *Specification* at pp. 3-6), due to the complexity of RCA loans as described in the specification, creating a securitized pool of RCA loans and then marketing an "RCA loan backed security" is not contemplated by the prior art. This is because a RCA loan is fundamentally different than a mortgage or credit card debt obligation, or any other underlying debt commonly used to support a securitized asset-backed loan pool.

In particular, using an RCA loan as collateral for a private or public debt offering entails several features that are not taught or suggested in the prior art. As explained in the specification, an RCA loan requires a company to first make a contribution that is divided equally between a refundable tax account at Revenue Canada, and an RCA trust. *See, e.g.*, *Specification* at 3:12-19. The RCA trust purchases a cash value life insurance policy. *See, e.g.*, *Specification* at 3:29 - 4:8. The RCA trust then pledges the insurance policy as well as contractual refund rights to a lender and receives a loan. *See, e.g.*, *Specification* at 4:8-30. The RCA trust can then lend the loan proceeds back to the company. *See, e.g.*, *Specification* at 5:1-

11. While this is the basic RCA structure, there are other constraints that further limit how the RCA transaction is implemented. For example, due to tax regulations on how much of an investment in an insurance policy can grow free from accrual taxation, the RCA trust cannot put all of the one-half of the company's contribution that it receives into the insurance policy right away and some must go into a side account. As interest is earned on the side account's principal prior to being put into the insurance policy, 50% of that interest is remitted to the refundable tax account at Revenue Canada. S*ee*, *e.g.*, *Specification* at 6:15 - 7:18.

Once the RCA is established, then by using a life insurance policy and the beneficiary's rights to the refundable tax account at Revenue Canada, an RCA trust can secure a loan from a lending institution. Such a loan can be for as much as 90% of the original entire contribution from the company. S*ee*, *e.g.*, *Specification* at 4:8-21. As described in the specification and *Webel,* this loan's proceeds can be loaned back to the company by the RCA trust.

According to the method and systems of the present invention, RCA loans can be aggregated and used to support an issue of debt securities. Such use is completely distinct from conventional asset based debt securities, such as are described in *Galaty*, because RCA loans are supported by a unique combination of a refundable tax account and a life insurance policy. This combination is subject to significant uncertainties which are reflected in its illiquid character. As described in the Specification, these uncertainties include, for example, lack of liquidity in the event of a company's default on an RCA loan (s*ee*, *e.g.*, *Specification* at 23:8-17), potential negative carry (s*ee*, *e.g.*, *Specification* at 24:25 - 25:2), insurance policy failing to perform in accordance with expected values (s*ee*, *e.g.*, *Specification* at 25:10-13), and difficult and/or protracted recovery process from refundable tax account (s*ee*, *e.g.*, *Specification* at 26:11-21).

Because of the nature of the RCA loan, the claimed RCA debt security did not exist prior to Applicants having created it. Also, because of the uncertainties underlying a RCA loan as described above, the claimed maintenance of payments of principal and interest on debt securities backed by RCA loans in an event of default of one of the RCA loans needs to be provided for, as described, for example, in the Specification at 22:7 - 24:14. This results in a completely different type of debt security and a method and system to provide it than that which is described in the prior art.

For example, a RCA loan used to back a debt security in accordance with an embodiment of the invention generally involves a special entity which acquires RCA loans on a "true sale" (e.g., non-recourse) basis from lenders and issues securities. S*ee*, *e.g.*, *Specification* at 22:7-17. The securities are then transferred to a Custodian or partnership who requires the services or aid of, for example, a Liquidity Provider, a Master RCA Trustee, an Advance Provider and a Servicer. S*ee*, *e.g.*, *Specification* at 23:8 - 25:13. Additionally, for example, in order to convert floating rate payments received from various companies (whose employees are beneficiaries of the RCA trusts), a Custodian can utilize a Swapcounterparty to generate fixed payments needed for debt security holders. S*ee*, *e.g.*, *Specification* at 27:5-14. Therefore, the use of RCA loans to collateralize a debt security and the method and systems to offer such debt securities are not taught or suggested by the prior art.

The primary reference relied upon in the Office Action, *Galaty,* relates to the well-known mortgage-backed securities, which are debt instruments secured by pools of mortgages. *Galaty* at p. 227. Such mortgage-backed securities, however, fail to teach, or even suggest, the RCA loan-backed securities claimed in the present application. For example, mortgage-backed securities are highly liquid and well understood in the marketplace, having

years of financial transaction data available so that risk factors can be accurately evaluated. In particular, the liquidity of mortgage-backed securities derives from the underlying collateral in a mortgage backed security, real property, which is readily identifiable and subject to appraisal (using well-understood techniques) and amenable to sale, lease, refinancing or other disposition.

In contrast, and as explained above, the underlying collateral for the claimed RCA loan backed securities of the present application, *i.e.*, a combination of an insurance policy and a refundable government tax account, is relatively illiquid, not easily realized upon, and not amenable to a quick disposition, especially when compared to the mortgage loans supporting mortgage-backed securities and their underlying real property collateral. The illiquidity of the life insurance component of a RCA loan's collateral derives from the fortuitous nature of the insurance carrier's obligation to pay a death benefit or to respond to an involuntary surrender event, such as termination, disability or sale of a business. S*ee, e.g., Specification* at 27:14-30. Accordingly, any loan obligation secured by such collateral will be illiquid and have impaired value.

Similarly, the refundable government tax account component of a RCA loan's collateral is also illiquid and without marketplace. As explained in the Specification, the RCA's refundable tax account, as well as the investment portion of the RCA, can only be withdrawn in defined amounts based on events generally beyond an individual's control, such as termination, sale of the business, disability or other such substantial change in employment status. *See Specification* at 2:15 - 3:20; 5:12-23; 26:11-31. Additionally, there are legal and logistical complexities involved in a third tier non-recourse assignee/creditor pursuing a claim for refund of a tax deposit account owned by the original beneficiary of an RCA trust. This further exacerbates this illiquidity. S*ee, e.g., Specification* at 23:18 - 24:4 (example scenario where this

problem arises); 26:11-31 (describes difficult and/or protracted recovery process from Revenue Canada).

Thus, there is no comparable market for insurance policies or RCA tax accounts, and certainly no comparable market for their combination, as exists for real property or real property mortgages such as is described in *Galaty*. As a result, *Galaty* is unconcerned with providing a structure for the continued payment of principal and interest on debt securities in the event of a default of a underlying RCA loan.

Therefore, Applicants respectfully assert that the mortgages used to support the highly liquid mortgage-backed securities described in *Galaty* fail to teach or suggest the use of relatively illiquid and highly complex RCA loans to back debt securities. Indeed, the Office Action itself admits that nothing in *Galaty* mentions, or even suggests, the use of a pool of RCA loans to back a debt security. *Office Action* at 3. Congruously, *Galaty* mentions nothing about ameliorating the uncertainties unique to such loans when offering debt securities backed by them.

The secondary reference relied upon in the Office Action, *Webel,* fails to cure the deficiencies of *Galaty* noted above. *Webel* describes the prior art use of a RCA loan by a company as both a means to fund a retirement plan and a source of financing. This was a known practice which also is described in detail in the Background Information section of the specification at pages 1-14. *Webel* makes no mention of aggregating a plurality of such RCA loans as recited in the pending claims.

Moreover, a combination of *Galaty* and *Webel* is simply not warranted because there is no reason to apply the well known principles of real property mortgages to the unique RCA loan which lacks the certainty and liquidity of real property that is central to mortgage-

backed securities and their wide acceptance in the marketplace. Thus, the combination fails to teach or suggest the claimed use of RCA loans to back debt securities or the claimed method and system to offer them, even if it was proper to make such a combination, which it is not. It is well-settled law that there must be some motivation or suggestion to combine references from the references themselves in order to establish obviousness. *Boehringer Ingelheim Vetmedica, Inc., v. Schering Plough Corp.*, 320 F. 3d 1339, 1354 (Fed. Cir. 2003). Clearly, there is no such motivation or suggestion in either of *Galaty* or *Webel* — accordingly the rejection must be withdrawn.

Claims 2-6, 8-15 and 17-20 depend from their respective independent claims 1, 7 and 16 and therefore incorporate each element of their respective independent claim. For at least for the reasons set forth above, Applicants respectfully assert that dependent claims 2-6, 8-15 and 17-20 also are neither taught nor suggested by *Galaty* or *Webel*, either individually or in combination.

Although not necessary to overcome the rejections of independent claims 1, 7 and 16, Applicants further note that the *Hymer* reference also fails to cure any of the deficiencies of *Galaty* and *Webel*. *Hymer* describes conforming and jumbo mortgages and the possible "piggy-backing" of a second mortgage on top of a conforming first mortgage. Nothing in *Hymer* describes or suggests the complex process required to aggregate a plurality of RCA loans and provide for the payment of principal and interest in the event of default of any such RCA loan described in the specification or recited in any pending claims, or the use of such an aggregation of RCA loans to back debt securities.

No additional fees are believed due herewith. If any additional fees are due, the Commissioner is hereby authorized to charge any fee deemed necessary for the entry of this Amendment to Deposit Account No. 50-0540.

Conclusion

For at least the reasons set forth above, the pending claims are in condition for allowance. Prompt allowance is respectfully requested.

Respectfully submitted,

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By ______________________
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